Nos. 855, 856

In the Supreme Court of the United States

October Term, 1941

The United States of America, appellant

v.

The Univis Lens Company, Inc., et al.

The Univis Lens Company, Inc., et al., appellants

v.

The United States of America

On appeal from the District Court of the United States for the Southern District of New York

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In the Supreme Court of the United States

OCTOBER TERM, 1941

No. 855

THE UNITED STATES OF AMERICA, APPELLANT

v.

THE UNIVIS LENS COMPANY, INC., ET AL.

No. 856

THE UNIVIS LENS COMPANY, INC., ET AL., APPELLANTS

v.

THE UNITED STATES OF AMERICA

ON APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR THE UNITED STATES

OPINIONS BELOW

The opinion of the District Court (R. 655) upon the merits of the case is reported in 41 F. Supp. 258. An earlier opinion of the District Court (R. 45) holding that the appellees in No. 855 (who are the cross-appellants in No. 856, and who are here-

inafter called "appellees") are subject to its jurisdiction is reported in 37 F. Supp. 459.

JURISDICTION

The final decree of the District Court was entered on November 25, 1941 (R. 683). Petition for appeal was filed on December 8, 1941, and the appeal was allowed on the same day (R. 687, 691). The jurisdiction of this Court is conferred by Section 2 of the Expediting Act of February 11, 1903, as amended (32 Stat. 823, 36 Stat. 1167, 15 U. S. C. § 29) and Section 238 of the Judicial Code, as amended (36 Stat. 1157, 38 Stat. 804, 43 Stat. 938, 28 U. S. C. § 345). Probable jurisdiction was noted on February 2, 1942.

QUESTIONS PRESENTED

Appellee Univis Corporation owns patents relating to an improved type of bifocal lens. It licenses appellee Univis Lens Company to manufacture and sell lens blanks only to licensed wholesalers and finishing retailers. Univis Corporation licenses wholesalers and finishing retailers to finish the blanks and sell the finished bifocal lenses to designated customers or classes of customers at prices fixed by Univis Corporation. Univis Corporation also licenses prescription retailers who purchase finished lenses from licensed wholesalers, and requires them to sell at fixed prices only to consumers. Appellees license only those wholesalers and retailers whose trade practices indicate that they will adhere to the prices and policies deter-

mined by appellees. This licensing system is supplemented by so-called "fair trade contracts" between Univis Lens Company and the licensees, fixing minimum prices for finished lenses, and also designating customers or classes of customers to whom the licensees may sell. The questions are:

1. Are the customer-designation and price-fixing provisions in the licenses from Univis Corporation to the wholesalers and retailers exempt from the Sherman Act by reason of the patent privilege?

2. Are the customer-designation and price-fixing provisions in the fair trade agreements between Univis Lens Company and the licensed wholesalers and retailers exempt from the Sherman Act by reason of the Miller-Tydings Amendment?

3. Are the provisions of the decree enjoining appellees from taking concerted action with their licensees to prevent the manufacture of competitive products proper under the circumstances?

4. Did the court below correctly rule that appellees are subject to its jurisdiction for purposes of this suit?

STATUTES INVOLVED

Sections 1 and 3 of the Act of July 2, 1890, c. 647, 26 Stat. 209, 15 U. S. C. §§ 1 and 3, known as the Sherman Antitrust Act, as amended by the Act of August 17, 1937, c. 690, 50 Stat. 693, known as the Miller-Tydings Amendment, provide in part as follows:

> SEC. 1. Every contract, combination in the form of trust or otherwise, or conspir-

acy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal: *Provided,* That nothing herein contained shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade-mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 5, as amended and supplemented, of the Act entitled "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September 26, 1914: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms,

or corporations in competition with each other.

* * * * *

Sec. 3. Every contract, combination in form or trust or otherwise, or conspiracy, in restraint of trade or commerce in any Territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations is hereby declared illegal.

Section 12 of the Act of October 15, 1914, c. 323, 38 Stat. 736, 15 U. S. C. § 22, known as the Clayton Act, provides as follows:

> Any suit, action, or proceeding under the antitrust laws against a corporation may be brought not only in the judicial district whereof it is an inhabitant, but also in any district wherein it may be found or transacts business; and all process in such cases may be served in the district of which it is an inhabitant, or wherever it may be found.

STATEMENT

This suit was commenced by a complaint filed on September 16, 1940, charging appellees with violating the Sherman Act by unlawfully contracting, combining, and conspiring to restrain and control the sale and distribution of Univis bifocal lenses

(R. 2). On November 26, 1940, the appellees entered a special appearance and moved to dismiss the complaint and to quash service upon the ground that they were not subject to the jurisdiction of the District Court (R. 11). Affidavits were filed and the motion was argued on January 10, 1941 (R. 45). On February 3, 1941, the court below overruled the motion, holding that the appellees were "transacting business" in the district within the meaning of Section 12 of the Clayton Act (R. 45). On February 28, 1941, appellees filed their answer and the case came on for trial on June 4, 1941 (R. 46).

On November 25, 1941, the District Court entered a final decree which dismissed the complaint insofar as it sought to enjoin the license agreements between the appellees and their wholesaler and finishing retailer licensees (R. 683). However, the court granted injunctive relief against appellees' license agreements with prescription retailers, their resale price-maintenance contracts with all types of licensees; and against certain activities engaged in by appellees in concert with their licensees to discriminate against persons engaged in manufacturing bifocal lenses (R. 683–686). The case is now before this Court on cross-appeals.

The evidence consists principally of documents from the files of the corporate appellees and testimony of their officers and employees. There is substantially no dispute over the evidentiary facts.

1. *Description of the Appellees.* The Univis Lens Company, Inc. (hereinafter called the "Lens Company"), was organized on February 4, 1927 (R. 6, 56). On March 14, 1931, as a preliminary step to setting up the Univis licensing scheme, the Lens Company organized Univis Corporation (R. 47). The Lens Company owns a majority of the stock of Univis Corporation and it is conceded that for all intents and purposes the two companies are a single organization (R. 4, 47, 48, 54, 55). The individual appellees are the principal stockholders of the Lens Company and are officers of both corporations, as indicated in the margin (R. 4, 48, 55).[1]

Immediately after the organization of Univis Corporation, the Lens Company transferred to it all of the patents, patent applications, and trade-marks which it owned relating to bifocal lenses (Ex. 2, R. 200). In return Univis Corporation gave the Lens Company a license under the patents to manufacture and sell lens blanks and the Lens Company agreed to pay a royalty of 50¢ on each pair of blanks sold (Ex. 2, R. 201; R. 47, 53, 54, 75–76). The Lens Company further agreed to sell the lens blanks only to customers designated by Univis Corporation (Ex. 2, R. 202). Thus Univis Corpora-

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Name of individual appellee	Position Univis Lens Company	Position Univis Corporation
Jack R. Silverman	President	Vice President.
Myer H. Stanley	Secretary	President.
George F. Stanley	Vice President	Sec. & Treas.
N. M. Stanley[1]	Ch., Bd. of Dirs.	Ch., Bd. of Dirs.

tion is merely a patent holding company and the Lens Company is its sole licensee for the manufacture and sale of lens blanks.[2] The Lens Company also makes and sells a small number of finished trifocal, cataract, and other highly specialized lenses.[3]

2. *Trade and Commerce Involved.*—The Univis lens is of the type commonly known as a bifocal lens. The first step in the manufacture of the lens is the making of a bifocal blank by fusing an insert segment of flint glass, known as the reading portion, into a larger piece of crown glass, which provides for distance vision (R. 48–49; Ex. F, R. 497–513, 518–531). The Lens Company manufactures these lens blanks at its factory in Dayton, Ohio, and sells and ships them to licensed wholesalers and finishing retailers located throughout the United States, including a number located in the District of Columbia and the Southern District of New York (R. 3, 53–55).

The wholesalers and finishing retailers grind, edge, and polish the blanks into finished lenses (R. 178). The finishing retailers then sell the finished lenses to consumers. The wholesalers, on the other hand, sell and ship the finished lenses to licensed prescription retailers, who are engaged

[2] A second company, Shuron Optical Company, was licensed to make and sell lens blanks until some time in 1934 (R. 47, 69–70).

[3] These special lenses constitute less than one percent of the business of the Lens Company (R. 67).

merely in prescribing or supplying the proper lenses for consumers, purchasing such lenses from the wholesalers, and then selling them to consumers. Many of the prescription retailers are located in states other than the states in which their wholesalers are located (Exs. 4, 6, 9, R. 207, 211, 214; R. 3, 54).

There are approximately 330 wholesaler licensees, 325 finishing retailer licensees, and 6,500 prescription retailer licensees (R. 48). In 1940 approximately 6 percent of the lens blanks sold by the appellees to wholesalers and approximately 4 percent of the lens blanks sold by the appellees to finishing retailers were sold to wholesalers and finishing retailers located in the Southern District of New York (R. 42). The annual dollar volume of business done by the Lens Company is nearly $1,000,000 (R. 43).

3. *The Univis Patents.*—Appellees introduced in evidence 16 patents and two trade-marks owned by Univis Corporation (Ex. F, R. 494). The court below held that the claims of eight of the 16 patents related to a finished lens; that the claims of five of the patents related to methods of making lenses; and that the claims of three of the patents were unrelated to the issues of this case (R. 659–661). The invention claimed in the patents held applicable to finished lenses relates to the shape and position of the reading segment in a bifocal lens (Ex. F, R. 497, 507, 518, 525, 529). This alleged invention

is practiced by appellees because the shape and position of the reading segment is determined in the manufacture of the lens blank (R. 186–187). The five patents relating to methods of producing lenses claim methods utilized by the Lens Company in manufacturing blanks and do not relate to any method or process employed by the licensees who finish the lens blanks (Ex. F, R. 499, 504, 510, 518, 522).[4] The finishing licensees finish Univis lens blanks in precisely the same manner as they finish all other bifocal lens blanks (R. 83–88, 163–164, 193–194).[5] Indeed, appellees have never contended that their licensing system is supported by patents covering methods or processes relating to the finishing of lens blanks. Consequently, it appears that appellees perform all of the operations which contribute any claimed element of novelty to Univis lenses.

[4] It appears that there may be an exception in the case of patent No. 1,879,769 relating to the use of the "slab-off" method for eliminating prismatic imbalance (Ex. F, R. 518). However, this method is used in finishing only about one percent of the lenses sold by Univis licensees (R. 175).

[5] In addition to the evidence referred to as supporting this statement, the Government offered to prove this fact but the trial court rejected the evidence (R. 173–174, 184–188, 193–194). This ruling has been assigned as error (Assignment No. 12, R. 690). It seems apparent the evidence was relevant and should have been admitted. The fact, if proved, would have tended to establish that the invention claimed in appellees' patent is practiced by appellees and not by their licensees. That this fact bears upon the legality of the licensing system, see *infra*, pages 32–44.

4. *The Licensing System.*—All dealers in lens blanks sold by the Lens Company and in finished lenses made therefrom must obtain licenses from Univis Corporation.[6] These licenses are of the following types:

(a) *Wholesaler and Finishing Retailer Licenses.*—Univis Corporation issues licenses to wholesalers and finishing retailers, sometimes hereinafter collectively referred to as "finishing licensees," which give them the right "to complete the manufacture of Univis bifocal lenses from rough lens blanks purchased only from the authorized manufacturing licensees of The Univis Corporation" (Exs. 4, 9, R. 208, 215). These licenses recite that Univis Corporation is the owner of patents for the manufacture of such bifocal lenses, that it "is limiting the right to manufacture" lens blanks to certain qualified manufacturers and, further, that it "is limiting the purchases" of the rough lens blanks for further finishing into finished lenses "to a select list of licensees" for the purpose of maintaining the quality of finished "Univis bifocal lenses."

By the terms of the licenses, the wholesalers expressly agree to sell finished lenses only at the prices fixed by Univis Corporation and only to licensed prescription retailers. They further

[6] The license from Univis Corporation to the Lens Company provides that the Lens Company shall sell Univis lens blanks only to customers designated by Univis Corporation (Ex. 2, R. 202).

agree that they will resell lens blanks only to licensed finishing retailers and only at the prices fixed by Univis Corporation. The finishing retailer licensees similarly agree that they will sell finished lenses only at the prices fixed by Univis Corporation; they further agree that they will sell such finished lenses only to consumers and that they will not resell lens blanks as such (Exs. 4, 9, R. 209, 216).

Each licensee is required to notify Univis Corporation "of any violation on the part of any jobbers or other licensees of the agreements respectively made by them with the corporation, and to assist the corporation in all possible ways in securing evidence against, and enforcing its agreements with such jobbers and licensees" (Exs. 4, 9, R. 210, 216). The wholesalers are required to keep "complete, exact, and full accounts of all sales and the prices at which sold, and the names of the purchasers, firms, corporations, etc., to whom sold" and to make these available to representatives of Univis Corporation at all reasonable times (Ex. 4, R. 209).

(b) *Prescription Retailer Licenses.*—Univis Corporation also licenses retailers who do not have finishing facilities. These licenses recite (Ex. 6, R. 211) that Univis Corporation controls certain patents and patent applications "for the manufacture, use and sale of bifocal eyeglass lenses and blanks." The license, which is signed not only by Univis Corporation but also by a Univis wholesaler,

purports to grant to the prescription retailer a "Franchise to Prescribe and Fit Univis Lenses," in return for which the prescription retailer agrees to sell finished lenses only to consumers and only at the prices prescribed in the so-called "Franchise."

(c) *The Prices Fixed in the Licenses.*—The Lens Company sells Univis lens blanks to wholesaler licensees at an average price of $3.25 a pair and to finishing retailer licensees at an average price of $4.00 per pair. The average price fixed by Univis Corporation for the sale of finished Univis lenses by the wholesaler licensees is $7.00 per pair (R. 8-9, 51-52, 63). The minimum price fixed by Univis Corporation for the sale of finished lenses by both prescription and finishing retailer licensees is $16.00 per pair for white, and $20.00 per pair for tinted, bifocal lenses (Ex. 6, R. 212; R. 52).

5. *Operation of the Licensing System.*—Univis Corporation licenses only those wholesalers and retailers whose trade practices indicate that they will adhere to the prices imposed by appellees.[7] Until very recently, Univis Corporation consistently claimed that it licensed only approximately

[7] A letter dated October 21, 1938, from the Univis Corporation to an applicant (Exhibit 44, R. 349), states: "Our policy, in the interest of protection of the ethical element, eliminates price-cutting or otherwise undesirable optical outlets. We restrict licensing to a small percentage."

Similarly, a letter dated February 21, 1939, from the Lens Company to an applicant (Exhibit 44, R. 357), states: "As you are doubtless aware, we have a very strong protective policy, by which distribution is confined to ethical channels. A qualification for Univis licensing is the main-

20% of the dealers in a locality so that the dealer receiving the license would be protected in the sale of Univis lenses from "80 percent of [his] competition." [8] Today, not more than 50 percent of the trade is licensed to handle Univis lenses (R. 103–104).

(a) *Qualification of Licensees.*—The final determination whether a license shall issue or be cancelled is made by a licensing committee consisting

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taining of high standards and proper competitive methods (in contrast to cut-price competition); contract obligation to observe the established minimum prices; and assurance of use of Univis lenses actively to make the connection mutually profitable."

[8] An advertisement of Univis Corporation (Exhibit 44, R. 324–d) reads in part as follows: "Distribution restricted to the element adhering to approved standards of practice and competitive methods * * * selective licensing under patents * * * eliminating about 80 percent of your competition."

Similarly in letter dated May 26, 1938, the Lens Company wrote to a licensee (Exhibit 16, R. 234) as follows: "You see Doctor, we only license about 20% of the registered men and for that reason almost 80% of a Univis licensee's competition is automatically eliminated and he is constantly assured of controlled legitimate profit on each pair of Univis prescribed."

Also in a letter dated April 10, 1939, from the Pacific Coast representative to an applicant (Exhibit 45, R. 405) the following statement is made: "We want ethical Optometrists who will sell Univis, maintain the price and abide by all of the clauses in the contract which are not difficult. In return we promise you that the territory will be policed and that everyone on the Univis list will do likewise. We also promise you that we will limit the number of licensees in proportion to the sales of our Univis licensees in that particular territory."

of executives of Univis Corporation (R. 122). Prescription retailers are required to apply for licenses through wholesaler licensees. The wholesalers are furnished with blanks on which to answer questions concerning the retailer applicant, including the following (Ex. 7, R. 213):

> Is his establishment exclusively optical—or in connection with a jewelry, drug, or department store?
>
> Does he maintain high standards of practice?
>
> Does he advertise?
>
> If so, does he advertise prices? Or that his prices are lower than average competition?

The accompanying instructions inform the wholesaler that " 'price cutters' are not eligible" as prescription retailer licensees (Ex. 8, R. 213).

The appellees employ a number of travelling representatives who check on the business practices of applicants (R. 92, 97, 98, 131, 140, 149–157). The representatives examine the shops of many of the applicants, make written reports concerning their trade practices, and usually recommend what action should be taken. In many instances Univis Corporation communicates with licensees who are competitors of an applicant to ascertain whether they have any objection to the grant of a license to the applicant.[9] Inquiry is also made as to the

[9] A letter dated March 10, 1939, from the Pacific Coast representative to an applicant (Exhibit 45, R. 422), reads as follows: "When we have one or two active men in a com-

business practices of the applicant with particular reference to whether he is considered a price cutter, whether he advertises prices, and whether he conducts his business in an "ethical" fashion (Exs. 7, 8, R. 213). Appellees consistently refuse to license applicants whose shops are located in drug stores, or in jewelry or department stores not receiving appellee's approval, or who advertise prices or the acceptance of installment payments.[10]

munity we watch conditions very carefully to see that no violations occur and no new licenses are written without the O. K. of the active licensee. We pride ourselves on a policy of co-operation along this line. We have turned down during the past three months at least six licenses from Oregon because each one came from a town in which we have an active licensee."

Similarly in a company memorandum dated March 14, 1938, from the Pacific Coast representative to the vice president of Univis Corporation (Exhibit 45, R. 417), it is stated: "We have too much business from Large accounts in Long Beach to take chances on licensing too many or accounts who do not belong to the association or who do not come under the heading of 'In good standing with Fellow members of the Optical profession' and then again we have too good an oculist business to take a chance on advertisers. One little no account Optometrist can spoil a good number of Univis Rxs with Oculists each month if we are not careful.

"If we get the O. K. from the larger Optometrists who are using a goodly quantity of Univis each month then we need not feel that our business is in danger, without this O. K. anything can happen.

"The answer is definitely NO until I can talk it over with Long Beach licensees."

[10] A letter dated April 7, 1937, from the Pacific Coast representative of the Lens Company to an applicant (Exhibit 45, R. 383) states: "There are two reasons why it is hardly possible for us to consider accepting your application at this time. The first and main reason is the fact that

(b) *Cancellation of Existing Licenses.*—Appellees have cancelled licenses principally because of the failure on the part of the licensees to abide by the price-fixing provisions.[11] Licenses have also been cancelled (1) for advertising prices or the acceptance of installment payments, or otherwise employing advertising matter objectionable to appellees; (2) for selling Univis products to customers other than those designated by the Univis Corporation; (3) for not giving a certain percentage of the licensee's bifocal lens business to Univis; (4) because the licensee was located in a drug, department, or jewelry store; and (5) because the licensee, while otherwise unobjectionable, merged

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we do not sell those 'Who advertise in a manner which tends to create the impression that they are cheaper than their competitors.' This paragraph is taken from our eligibility standards which we set up some years ago for the guidance of our field representatives. We employ a clipping bureau and have before us some of your advertising and we regret that this type of advertising does not in our opinion tend to build a stable Optical business."

[11] Appellees' representatives were used for the purpose of policing the price-fixing provisions. A letter dated May 2, 1937, from the Pacific Coast representative, to a licensee (Exhibit 45, R. 386) states in part: "The representatives also keep the territory free from price cutting, of course the secret of our perpetual success is that we do not license anyone who has the slightest idea of cutting prices on any kind of merchandise. The second paragraph of the contract which you signed says that you can supply Univis bifocals only as finished lenses to the patients whom you wait upon, that means that you cannot sell another Optometrist a pair of Univis even though he is willing to pay you the full retail price."

its business with that of a dealer whose trade practices were deemed objectionable (Exs. 18, 19, 27, 31, 32, 44, 45, R. 298, 303–305, 306–b, 328, 330–332, 334, 335, 340–342, 344–345, 347, 367–368, 388). In addition, licenses have been cancelled because the licensee engaged in price cutting on the products of other manufacturers,[12] and because the licensee advertised products of other manufacturers in a manner objectionable to the appellees.

(c) *Effect of licensing system on competition.*—As a result of the licensing system, appellees maintain fixed prices for Univis bifocal lens blanks and

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[12] An inter-company memorandum regarding the cancellation of an existing license (Ex. 44, R. 332–c) states: "Removal recommended. He is dispensing to retail patients at Rx cost plus fitting charge. This, of course, brings his glasses very low. Probably will uphold the price of Univis, but I believe it wiser to remove rather than take the chance of our Reps. believing he is doing the same thing on Univis. Discussed with Hager [a wholesaler]—satisfied."

The same policy is applied in connection with issuing licenses. A letter dated December 6, 1935, from Univis Corporation to one of its wholesaler licensees (Ex. 44, R. 333) states: "The matter with Dr. C. C. Morrison is a tough one to take up in a letter, for several reasons. However, it is tackled to give him a good idea of what holds up his application—relieving you of any responsibility. It is possible he will say that regardless of what he does with other lenses and optical goods, he will maintain the price on Univis. That won't do. There are 'price-cutters' galore who would rigidly adhere to Univis contract if we gave them franchises, but their competitors wouldn't believe it—and what the dealers believe about what is going on is what makes or mars Univis prestige in the locality."

lenses and prevent competition among their licensees. A further result is the existence of an integrated organization of dealers which has been and can be used as an economic weapon for destroying competition from other manufacturers. For instance, when Titmus Optical Company, Inc., a manufacturer of lens blanks, announced to the trade in the fall of 1939 that it intended to market a bifocal lens blank similar in appearance to the Univis bifocal lens blank, appellees first threatened the Titmus Optical Company with suit for infringement, and then instructed a number of their wholesaler licensees to cancel and threaten to cancel orders for other types of lenses made by Titmus Optical Company if that company marketed a competitive bifocal lens blank. The result was that Titmus Optical Company did not go into this line of business (R. 115–120, Ex. 20, R. 237–268).

6. *Resale Price-Maintenance Contracts.*—In 1940 the Lens Company executed resale price-maintenance contracts with the wholesaler, finishing retailer, and prescription retailer licensees of Univis Corporation (Exs. 10, 12, 13, R. 217, 224, 228). The Lens Company sent out these resale price-maintenance contracts accompanied by a form letter which stated (Ex. 14, R. 233):

> Without changing the basic Univis licensing structure, we propose to supplement the present license with a Fair Trade Agreement based on the Tydings-Miller Act and the Fair Trade Acts of the various States.

These resale price-maintenance contracts fix the minimum price at which the licensees may sell finished lenses and designate the customers or classes of customers to whom the licensees may sell lenses. The price-fixing and customer-designation provisions of the contracts duplicate the comparable provisions of the license agreements. (Exs. 10, 12, 13, R. 219, 220, 225, 227, 230, 231.)

7. *Opinion, Findings, and Decree of the Court Below.*—On September 17, 1941, the court below filed an opinion holding that appellees' patents covered the finished lenses processed by wholesalers and finishing retailers, that the wholesaler and finishing retailer licenses were valid patent licenses, and that the restrictions in those licenses fixing prices and designating customers were legal under the authority of *United States* v. *General Electric Co.*, 272 U. S. 476 (R. 655). The court held, however, that the price-fixing provisions in the prescription retailer licenses were invalid because they controlled the resale of a patented product. The court also held that the fair trade agreements were illegal because the Lens Company, the manufacturer of the lens blanks, was fixing the resale price of the finished lens. In addition, the court held that the appellees, together with certain wholesaler licensees, had engaged in a concerted effort to interfere with the Titmus Optical Company because it proposed to manufacture competitive bifocal lenses.

On November 25, 1941, the court filed findings of fact and conclusions of law in accordance with its opinion (R. 670). On the same day it entered a

decree dismissing the bill of complaint in part but enjoining appellees from (1) carrying out the restrictive provisions in the prescription retailer licenses; (2) carrying out the fair trade agreements; and (3) continuing acts similar to those resulting in the interference with the business of Titmus Optical Company (R. 683).

SPECIFICATIONS OF ERRORS TO BE URGED IN NO. 855

The District Court erred:

1. In holding that the agreements between Univis Corporation and the wholesaler and finishing retailer licensees were lawful patent license agreements, and in failing to hold that they violate Sections 1 and 3 of the Sherman Act.

2. In holding that the sale of the Univis lens blanks by the appellees does not exhaust the patent monopoly, and in failing to hold that the appellees after selling the lens blanks have no right to control the sale of the finished lenses processed from the blanks.

3. In failing to hold that the appellees' licensing plan was so tainted with illegality and constituted such an unreasonable restraint of trade as to require that the entire scheme be struck down in order to correct the abuses inherent therein.

SUMMARY OF ARGUMENT

I

Both appellees' patent licenses and their resale price-maintenance contracts require all persons en-

gaged in the distribution of Univis bifocal lens blanks and finished lenses to sell only to customers or classes of customers designated by appellees and only at prices fixed by appellees. Unless those agreements are specifically sanctioned by either the patent law or the Miller-Tydings Amendment, they plainly constitute illegal restraints of trade in violation of the Sherman Act.

II

The customer-designation and price-fixing provisions in appellees' finishing licenses are not sanctioned by the patent law.

A. The alleged invention which is the basis for all of the relevant patents held by appellees relates solely to the shape and position of the reading segment in a bifocal lens. That invention is practiced by appellees in the manufacture of the Univis lens blanks and appellees secure their entire reward for the invention by the sale of those blanks. Once the blanks embodying the patented idea are sold, appellees can exercise no further control over the sale either of the blanks themselves or of the finished lenses made from the blanks. This Court squarely so held in *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, where the rule was established that a patentee, after securing his reward by selling an article of commerce embodying his invention, may not control the price at which his licensee sells a commodity produced from the purchased article.

B. The court below ignored the initial sale of the blanks to the finishing licensees and treated the finishing licensees as though they were in the position of ordinary manufacturing licensees licensed to make and vend a patented article. On this premise, it upheld the restrictive provisions of the finishing licenses upon the authority of *United States* v. *General Electric Co.*, 272 U. S. 476. We believe that the court's premise is plainly wrong and that this case is governed by the *Ethyl* rather than by the *General Electric* case. But even if this Court should think otherwise, the finishing licenses should still be held invalid, for we believe that the *General Electric* case expresses an erroneous view of the scope of the patent privilege and that, if necessary for the decision of this case, it should be reexamined and overruled.

No express provision of the patent law gives a patentee a right to determine the price at which, and the customers to whom, his licensees shall sell. And to imply such a right would in no way further the purpose of the patent statute which is to benefit the public by encouraging the development of new inventions. The type of restrictions here involved, far from benefiting the public by giving an incentive to inventors, injures the public by depriving it of the benefits of competition. The Sherman Act expresses a public policy in favor of free and unrestricted competition so strong that it taints with illegality all attempts to fix prices, re-

gardless of the so-called "rule of reason"; that public policy should not be required to give way in the one situation of patent licenses, particularly in the absence of any countervailing considerations of public interest derived from the patent law.

C. Aside from the illegality of the license agreements, considered individually, the licensing scheme in its entirety is plainly illegal. Appellees have not granted licenses for the purpose of securing a reward for their invention; they have merely used the licensing system to offer their licensees a price-fixing scheme and protection from competition as an inducement to purchase appellees' lens blanks. No patentee is entitled to use his patent for the purpose of promoting the business of another or to secure a reward other than that which may be obtained from the exclusive right to make, use, and vend the patented article.

III

The Miller-Tydings Amendment does not sanction resale price-maintenance contracts such as those here involved. Appellees' contracts with wholesalers and finishing retailers do not relate to the resale of a commodity but to the original sale of a finished lens; consequently the contracts are not within the terms of the statute.

Furthermore, all of the resale price-maintenance contracts purport to relate to finished lenses bearing the trade-mark "Univis," which is owned by appellees. The statute permits resale price-mainte-

nance contracts only with respect to "a commodity which bears, or the label or container of which bears, the trade-mark, brand, or name of the producer of such commodity." In this case appellees are basing their fair trade contracts on their own trade-mark, but that trade-mark is claimed to be applied to a commodity which is produced by the wholesalers and finishing retailers, *i. e.,* the finished lenses. Consequently, the contracts are invalid because the trade-mark allegedly applied to the commodity is not that of the producer.

In any event the resale price-maintenance contracts were adopted merely to buttress the appellees' patent-licensing system and contain practically the same provisions as the patent licenses. If the patent-licensing system is illegal, failure to strike down the fair trade contracts would merely enable appellees to continue to harvest the fruits of their illegal scheme.

IV

Even should the finishing licenses be held valid, the prescription retailer licenses are clearly illegal, as the court below held.

V

The record establishes that the corporate appellees were transacting business in the Southern District of New York within the meaning of Section 12 of the Clayton Act. Consequently, the court below properly held that appellees were subject to its jurisdiction.

ARGUMENT

I

THE AGREEMENTS BETWEEN APPELLEES AND THEIR LICENSEES DIRECTLY AND SUBSTANTIALLY RESTRAIN TRADE AND COMMERCE

There is no dispute in this case that appellees have entered into a series of agreements which directly and substantially restrain trade in Univis lenses. The decisive issue is whether that restraint of trade is a permissible exercise of appellees' legal rights under either their patent grants or the laws authorizing resale price-maintenance contracts. However, the legal questions thus presented are clarified by considering first the nature of the restraints which the agreements impose.

The facts recited in the Statement show that appellees' distribution system is based upon two series of agreements. The first series consists of the patent licensing agreements entered into between Univis Corporation, on the one hand, and the Lens Company, the wholesalers, and the two classes of retailers, on the other; the second series consists of the agreements between the Lens Company and the wholesalers and the two classes of retailers purporting to fix resale prices. Since the two types of agreements are designed to accomplish exactly the same result and the duplication serves no purpose except to provide appellees with two legal arguments in defense of their scheme,

no effort will be made to distinguish between the agreements in this section of the brief.[14]

Under the terms of the agreement between Univis Corporation and the Lens Company, the Lens Company agrees to sell lens blanks only to purchasers who have obtained finishing licenses from Univis Corporation. Such finishing licenses, in turn, are granted by Univis Corporation to selected wholesalers and finishing retailers. Wholesalers are required to agree that they will sell lenses only to licensed prescription retailers and only at prices fixed by appellees. Similarly, finishing retailers are required to agree that they will sell lenses only to ultimate consumers and only at prices fixed by appellees. And, finally, prescription retailers, in order to secure permission to purchase from licensed wholesalers, must agree to resell the lenses only to ultimate consumers and only at prices fixed by appellees.

Under these agreements, it is clear that appellees are expressly empowered to fix the price for every sale of Univis lenses, whether made by a wholesaler

[14] The identity of purpose of the agreements is discussed *infra*, page 75. The one difference that might be thought important is that the patent license agreements define the relations between Univis Corporation and the Lens Company, while Univis Corporation is not a party to the resale price-maintenance contracts. However, that difference is not significant because it is conceded that the Univis Corporation and the Lens Company are, for all intents and purposes, the same. See p. 7, *supra*.

to a prescription retailer, or by a prescription or finishing retailer to the ultimate consumer. Further, the agreements show that appellees have absolute power to determine who shall be allowed to engage in any part of the business of manufacturing, distributing and selling Univis lenses. And the record reveals arbitrary exercise of that power at the uncontrolled discretion of appellees.

Every person seeking permission to engage in handling Univis lenses is investigated by appellees and passed upon by a special licensing committee consisting of executives of the corporate appellees. The information upon which they base their judgment includes reports of appellees' service men and information received from persons holding licenses. As a result, competitors of an applicant are given an opportunity to influence the decision whether a license shall be granted. As a matter of policy appellees have refused to license persons who might cut prices, not only on Univis lenses, but also on the products of other companies entirely unrelated to appellees. Licenses have also been refused persons seeking to sell Univis lenses in a place of business considered undesirable by appellees.[18] Similar reasons have been considered sufficient grounds for cancelling licenses. Indeed, at one time, appellees, assuming that they were entitled to decide

[18] For example, appellees have refused to allow Univis lenses to be handled in a drug store or in any place of business which engages in price cutting (Ex. 44, R. 32[illegible], 326, 344, 351–352).

arbitrarily who should be allowed to deal in Univis lenses, advertised that they licensed only 20 percent of the trade. See pp. 13–18, *supra*.

Unless appellees can establish that the foregoing agreements are exempt from the Sherman Act prohibition against restraints of trade by reason of either the patent laws or the Miller-Tydings Amendment, the agreements are unquestionably illegal, both because of the price-fixing provisions (*United States* v. *Trenton Potteries*, 273 U. S. 392; *United States* v. *Socony-Vacuum Oil Co.*, 310 U. S. 150) and because of the provisions excluding from trade in Univis lenses everyone except the licensees of Univis Corporation. In effect, these latter provisions constitute an illegal boycott of all those who do not conform to the business practices approved by appellees. *Fashion Originators' Guild* v. *Federal Trade Commission*, 312 U. S. 457; cf. *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436; *Paramount Famous Corp.* v. *United States*, 282 U. S. 30, 43; *United States* v. *First National Pictures, Inc.*, 282 U. S. 44; *Eastern States Lumber Ass'n* v. *United States*, 234 U. S. 600. The agreements thus create a combination consisting of appellees and all of the Univis licensees which, under the guidance of Univis Corporation, makes impossible free and open competition in the distribution and sale of Univis lenses. That the combination was formed by a series of separate agreements rather than by a single agreement is of no

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consequence; neither is it significant that the parties to the combination may not have acted simultaneously. *Interstate Circuit* v. *United States,* 306 U. S. 208; *Ethyl Gasoline Corp.* v. *United States,* 309 U. S. 436.

In the court below the contention was made that there could be no substantial restraint of trade because commerce in Univis lenses amounts to only two and one-half percent of the entire commerce in lenses. But price fixing and refusal to deal are by their very nature the kind of restraints which restrict the amount of commerce and are accordingly illegal irrespective of the volume of commerce restrained. As this Court has said, "it is the nature of the restraint and its effect on interstate commerce and not the amount of the commerce which are the tests of violation." *Apex Hosiery Co.* v. *Leader,* 310 U. S. 469, 485; see also *United States* v. *Socony-Vacuum Oil Co.,* 310 U. S. 150, 224, fn. 59.[16]

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[16] Another answer to the argument, which would also seem conclusive, is that the Univis licensing system controls the entire commerce in Univis lenses. Appellees contend that Univis lenses are a special type of lens having unique features which make them more desirable than other kinds of lenses. Acceptance of that contention requires the conclusion that the public is entitled to free competition in this type of lens unless it has waived that right by specific statutory provisions. Since appellees' principal defense is based on a claimed statutory waiver of the right to free competition by reason of the patent laws, appellees are placed in the dilemma of standing on their contention that a Univis

II

APPELLEES' LICENSING SYSTEM CANNOT BE JUSTIFIED AS AN EXERCISE OF THE PATENT PRIVILEGE

The court below held, upon the authority of *United States* v. *General Electric Co.*, 272 U. S. 476, that the price-fixing provisions in appellees' wholesaler and finishing retailer licenses were valid. We think that this ruling is erroneous and that appellees' licensing system should be held illegal for the following reasons: First, since appellees obtain their entire reward from their patents by making and selling lens blanks embodying the alleged discovery embraced by the patents, this case is not governed by the *General Electric* decision; rather, it falls within the ruling in *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, to the effect that a patentee, after securing his reward by selling an article embodying the invention, may not control the price at which his licensee sells a commodity produced from the purchased article. Second, assuming that the rule of the *General Electric* case is applicable to the facts of this case, we believe that that decision should be overruled because neither the letter nor the purpose of the

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lens is a unique article of commerce which, in the absence of the asserted patent monopoly, should move in commerce free of all restraints, or of admitting that the patents cover an article which is not essentially different from other lenses and is therefore not properly patentable.

patent law justifies, and the paramount public interest forbids, permitting a patentee to fix prices for his licensees. Third, irrespective of the validity of the licenses individually, the licensing system, viewed in its entirety, is illegal because it is merely an inducement offered to promote the sale of lens blanks by offering price protection to customers and is therefore not a valid exercise of the patent privilege.

A. APPELLEES' PATENT LICENSING SYSTEM IS AN ATTEMPT TO CONTROL THE DISTRIBUTION AND SALE OF UNIVIS LENSES BEYOND THE SCOPE OF THE PATENT PRIVILEGE

As a basis for the patent licensing system, appellees introduced in evidence 16 patents. The court below held that eight of the patents claimed a finished lens, five related to methods of producing lenses, and three were irrelevant to the issues in this case. Although the Government urged below that the only relevant patent claims possessed by Univis Corporation related solely to lens blanks because the claims of the patents should be limited by the descriptions in the specifications, we think it unnecessary to press that contention before this Court. The controlling fact is that the entire license structure is built upon a single contribution to science and the useful arts—specifically, the claimed invention of an allegedly unique type of lens blank or lens for spectacles. The distinguishing feature of the lens lies in certain alterations in the shape and position of the segment which is fused into the blank in order to produce

the bifocal lens blank from which the Univis bifocal lens is made.[17]

Regardless of the number of patents appellees have acquired, their business consists solely in exploiting the exclusive right to practice whatever invention may be said to have resulted from their single idea of having a different shape of segment inserted at a different place in a lens blank or lens. The Lens Company utilizes that idea in manufacturing the blanks. It fuses the properly shaped segments into the correct position in the blank so that a finished lens may be produced by grinding,

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[17] It can hardly be contended that the patents are anything more than improvement patents. Bifocal lenses made by fusing together segments of glass of different refractive power were invented in 1908 by one Borsch. *Univis Corp.* v. *Rips*, 104 F. (2d) 749 (C. C. A. 6th). In that case patents Nos. 1,899,777 and 1,912,165, two of the patents relied upon by appellees and referred to in the decision of the court below, were held invalid for want of invention. In discussing the prior art, the court noted that bifocal lenses were first made by Benjamin Franklin, who mounted two separate lenses, one above the other, in a single frame; the opinion then discusses the numerous subsequent improvements, the most significant of which was the Borsch invention of a bifocal lens produced by grinding a recess in an ordinary lens and fusing therein a segment of glass of different refractive power. Referring to appellees' patents, the court said (p. 752): "If there was any invention, it lay in the novel shaping and positioning of this insert, but the possibilities for variation in shaping and positioning were innumerable once the manner of doing so was revealed, and we hardly think that every fresh effort which results in a new shape or position for the insert can be said to amount to invention."

polishing, and shaping the blank. The blank is then sold to licensed wholesalers and finishing retailers for completion into a finished lens, which, as the court below pointed out, is the only purpose for which the blank can be used (R. 672).

The purchase price received by the Lens Company for the blanks represents the entire monetary consideration which the finishing licensees are required to give, not only for the blanks but for the right to grind, polish, and shape the blanks into finished lenses. Univis Corporation does not attempt to exact any charge in the form of royalty or otherwise from these licensees, but it does require them to sell finished lenses only to customers or classes of customers designated by it, and to sell only at minimum prices fixed by it. These restrictions, it should be noted, relate to the sale of a finished article processed from lens blanks in which the single patented idea or discovery exploited by appellees has already been embodied.[18]

The basic question presented on this aspect of the case is thus whether a patent owner, having chosen to exploit his patents by securing for himself a complete monopoly of the manufacture, distribution, and sale of a product useful only for turning out a

[18] If, as we contend, these restrictions are invalid, the whole licensing system would necessarily fall and it would become unnecessary to consider the legality of the agreements whereby appellees fix the prices at which the customers of the wholesaler licensees (the prescription retailers) may resell the lenses.

finished article claimed in the patents, may restrict the finishing of the article to those who agree to sell only at prices fixed by him and only to customers designated by him.[19] We believe that under the settled decisions of this Court a patentee may not so enlarge his patent monopoly.

The method chosen by appellees for exploiting their patents is almost identical to that considered by this Court in *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436. There the Ethyl Corporation held patents covering (1) a fluid used in the production of motor fuel, (2) the process of producing motor fuel by mixing the patented fluid with ordinary gasoline, and (3) the use of motor fuel containing the patented fluid in internal-combustion engines. However, the Ethyl Corporation in fact exploited only the patent on the fluid. It manufactured and sold this fluid to refiners who were given royalty-free licenses to make the motor fuel and sell it to licensed jobbers. The jobbers, in turn, were licensed to resell the fuel to retailers. None of the jobber licenses contained price-fixing

[19] The court below held, and appellees admitted, that Univis Corporation and the Lens Company are to all intents and purposes the same. In view of this fact, it seems useless to consider the legality of the purely artificial arrangements between the companies. Consequently, we shall not urge the illegality of the restrictive provisions in the agreement between Univis Corporation and the Lens Company, although it would seem that those provisions are subject to the objections which we urge (*infra*, pp. 44–61) to similar provisions in the other licenses.

provisions such as are here involved, but the Government attacked those licenses because it was shown that Ethyl Corporation was using the licenses to maintain prices and marketing policies determined by the refiners. No attack was made on the refiner licenses.

This Court held that Ethyl Corporation was not entitled by its patents to enforce an otherwise illegal licensing system excluding jobbers from the market. The opinion states (309 U. S. at 459):

> Appellant neither owns nor sells the patented fuel nor derives any profit through royalties or otherwise from its sale. It has chosen to exploit its patents by manufacturing the fluid covered by them and by selling that fluid to refiners for use in the manufacture of motor fuel. Such benefits as result from control over the marketing of the treated fuel by the jobbers accrue primarily to the refiners and indirectly to appellant, only in the enjoyment of its monopoly of the fluid secured under another patent. The licensing conditions are thus not used as a means of stimulating the commercial development and financial returns of the patented invention which is licensed, but for the commercial development of the business of the refiners and the exploitation of a second patent monopoly not embraced in the first. The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another, see *Standard Sanitary Mfg. Co.* v. *United States, supra,* than

for the exploitation of an unpatented article, *United Shoe Machinery Co.* v. *United States, supra*; *Carbice Corporation* v. *American Patents, Corp., supra; Leitch Manufacturing Co.* v. *Barber Co., supra; American Lecithin Co.* v. *Warfield Co.,* 105 F. 2d 207, or for the exploitation or promotion of a business not embraced within the patent. *Interstate Circuit* v. *United States, supra,* 228–230.

While this passage was no doubt directed to establishing the illegality of the jobber licenses, which were one step beyond the refiner licenses, the reasoning would apply with equal force to the refiner licenses if any provisions of those licenses had been attacked as eliminating competition between refiners.[20] The basic proposition announced is that a patentee is foreclosed from controlling the disposition and sale of a patented article after he has received his entire reward for the particular invention which he has chosen to exploit. The foundations of this rule are almost as old as the patent law. *Bloomer* v. *McQuewan,* 14 How. 539; *Adams*

[20] This Court affirmed the decree of the District Court enjoining the Ethyl Corporation from requiring refiners to sell only to licensed jobbers. However, it is not clear whether that requirement fell of its own weight or because of its relation to the jobber licenses which had been used for the illegal purpose of fixing prices. It would seem that either view would require enjoining the customer-designation provisions in the finishing licenses which appellees grant to wholesalers because those provisions complement the price-fixing provisions in the prescription retailer licenses.

v. *Burke,* 17 Wall. 453; *Hobbie* v. *Jennison,* 149 U. S. 355.

The noteworthy feature of the quoted portion of the *Ethyl* opinion is that it clearly indicates that no artificial rule or formalistic construction of patent claims determines the point at which exploitation of the invention by the patentee exhausts the patent rights. In the *Ethyl* case the patentee had four patents covering the entire field from the manufacture of the fluid to the actual consumption of motor fuel containing the fluid. Yet its sole contribution to science, and the only patented idea which it chose to exploit, was the fluid itself. Accordingly, this Court held that the patentee, upon selling the fluid to refiners, received the entire reward to which it was entitled and therefore could exert no further control over the use or disposition of the fluid.

The present case is in all substantial respects similar to the *Ethyl* case. Appellees exploit the patents received as the result of their single idea or invention by manufacturing and selling lens blanks embodying the distinctive feature. Appellees sell the blanks knowing and intending that they shall be used for the sole purpose for which they are suited, the making of finished lenses. The purchasers buy the blanks for the sole purpose of finishing them into eyeglass lenses. With the sale of the blanks appellees receive the entire reward which they claim for their invention. At the same

time the purchasers not only receive full title to the blanks but acquire a license implied in law to use the blanks for the only purpose for which they are adapted, i. e., to make finished lenses for sale to the trade. Cf. *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, 461; *St. Joseph Iron Works* v. *Farmers Mfg. Co.*, 106 F. (2d) 294 (C. C. A. 4); *Radio Corporation of America* v. *Andrea*, 79 F. (2d) 626, 629 (C. C. A. 2); *Edison Electric Light Co.* v. *Peninsular Light, Power & H. Co.*, 101 Fed. 831, 836–837 (C. C. A. 6).

It would indeed be anomalous if appellees could defeat rights which purchasers would otherwise acquire through operation of law by compelling the purchasers to accept express licenses limiting the right to vend both the blanks and the finished lenses. As this Court said in *Adams* v. *Burke*, 17 Wall. 453, 456:

> But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. *Bloomer* v. *McQuewan*, 14 Howard, 549; *Mitchell* v. *Hawley*, 16 Wallace, 544. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular

machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.[21]

A necessary corollary of this rule is that a patentee is not entitled to fix the price at which a patented article sold by him shall be resold by the purchaser. *Bauer* v. *O'Donnell,* 229 U. S. 1; *Straus* v. *Victor Talking Mach. Co.,* 243 U. S. 490; *Boston Store* v. *American Graphophone Co.,* 246 U. S. 8. Under this established principle, it seems entirely clear that appellees' patents do not entitle them to restrict the right of finishing licensees to use or resell the lens blanks which they purchase from appellees. And since the blanks are only useful for the production of finished lenses, it seems equally clear that appellees have also parted with the right to exercise any dominion over the sale of the finished lenses.

No different result follows simply because of appellees' alleged patent claims to the finished

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[21] In that case the plaintiff's predecessor in interest had assigned to a coffin manufacturer all of his rights in a patent which covered the manufacture, use, and sale of coffin lids, but the assignment was limited to an area within a radius of 10 miles around Boston. The assignee made and sold a coffin lid within the area to the defendant, who used the coffin lid outside the area. The plaintiff sued the defendant for infringement of the patent. The Court held that a plea setting up the facts as to the sale was good and that the suit should be dismissed. See also *Hobbie* v. *Jennison*, 149 U. S. 355; *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659. But cf. *General Talking Pictures Corp.* v. *Western Elec. Co.*, 304 U. S. 175; 305 U. S. 124.

lenses. Substantially the same situation existed in the *Ethyl* case. Nor can the licensing system be justified because of some alleged division of functions under the same patent between the appellees and the finishing licensees in producing the finished Univis lens.[22] As the *Ethyl* case establishes, the validity of a licensing system such as that here involved does not turn upon any technical construction of the patents. The important consideration is that appellees here, like the patentee in the *Ethyl*

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[22] The District Court held that appellees' patents applied to finished lenses, but it is not clear whether the court thought that the lens blank was covered by the patents. The court said (R. 661):

"The situation is not one in which the patentee seeks to control an unpatented element of a combination and so differs from *Carbice Corp.* v. *American Patents Development Corp.*, 283 U. S. 27. * * * Here the owner of the patents neither manufactures nor sells a product covered by the patents. The rough blank made by the Lens Company as a licensee is not a standard article of commerce."

If the court was referring to the fact that Univis Corporation owns the patents while the Lens Company manufactures the blanks, the statement disregards the previous holding of the court that the two companies are to all intents and purposes the same. On the other hand, if the court considered the doctrine of improper use as applicable only to standard articles of commerce, the decision is directly contrary to the ruling of this Court in the *B. B. Chemical Co.* v. *Ellis*, No. 75, this Term, decided January 5, 1942. There the argument was made that the specially treated canvas which the patentee sold was not a standard article of commerce because it was only useful in the process defined in the patents. This Court rejected the contention and held that the rule of improper use was applicable regardless of the nature of the unpatented article.

case, have attempted to extend the one monopoly to which they are presumably entitled by reason of their one idea far beyond the limits allowed by the patent law. They have not been content with merely securing for themselves a monopoly in the manufacture and sale of lens blanks embodying their idea but have sought to exercise complete control over the finishing of the blanks and the sale of the finished lenses by those who have purchased the blanks from them. So flagrant an abuse of the patent privilege cannot be shielded from the law by devising an elaborate licensing system under which the licensees perform the final operation necessary to make the patented product available to the public.

This Court has said that it will "look through the words and forms," with which a patentee "has most elaborately enveloped its purpose, to the substance and realities of the transaction." *Straus* v. *Victor Talking Mach. Co.*, 243 U. S. 490, 498.[28] In that case a patentee sold a patented article, but sought to disguise the sale as a license to use by calling the contract of sale a "license agreement" and the consideration a "royalty"; this Court, however, penetrated to the substance of the transaction, held it to be a sale, and accordingly

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[28] The Court further said (pp. 500–501):

"Courts would be perversely blind if they failed to look through such an attempt as this 'License Notice' thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest."

held invalid the terms contained in a so-called "license notice" which attempted to impose restrictions upon the use of the patented article. Equal regard for substance in this case requires a holding that the monopoly of manufacturing and selling the lens blanks is the reward appellees have chosen to reap for their invention and that, after the sale of the blanks at a price satisfactory to them, "the public is entitled to whatever advantage may be derived from competition in the subsequent traffic." *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373, 409.

The contention may be advanced that appellees are able to enhance their reward from the patents by means of the licensing system. But the licenses are royalty free and the only charge which appellees make is for the lens blanks. Consequently the restrictions on the subsequent use and sale of either the blanks or of the finished lenses have as their direct result the promotion of the business of the licensees rather than that of appellees. To be sure, these restrictions make the purchase of Univis lens blanks more attractive by limiting the number of persons who may handle Univis lenses and fixing a minimum price for such lenses. But if this enhances the reward for appellees' invention, it does so only by enabling the appellees to sell a price-fixing scheme together with their lens blanks. A reward so derived is clearly not within the scope of the patent monopoly. Precisely the same type of reward may be derived by a patentee who sells a

patented article subject to resale price restrictions. Yet such restrictions have consistently been held illegal by this Court. See *Straus* v. *Victor Talking Mach. Co.*, 243 U. S. 490; *Bauer* v. *O'Donnell*, 229 U. S. 1; *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8.

The limited monopoly which the public has seen fit to grant to inventors as a reward for their ingenuity is in derogation of the paramount public policy against restraints on trade and commerce; accordingly, the scope of that grant may not be extended beyond the point where it serves its primary purpose of promoting "the progress of science and useful arts." See *Motion Picture Patents Co.* v. *Universal Film Co.*, 243 U. S. 502, 510–511. In the present case, appellees derive the reward from their patented idea through the monopoly which they have of the manufacture and sale of lens blanks embodying their invention. To allow them at the same time to assert complete control over the subsequent use and sale of the finished product by purchasers of the blanks would be to reward them, not for the ingenuity displayed in their alleged invention, but for the ingenuity displayed by their counsel in devising the patent claims and the licensing agreements. The public interest in free competition obviously forbids any such result.

B. A PATENTEE MAY NOT DETERMINE THE PRICE AT WHICH HIS LICENSEES SHALL SELL

The court below expressed the view that the *Ethyl* case is not applicable to the present situation

for the reason that the finishing licensees, unlike the jobbers in the *Ethyl* case, partake to some extent in the manufacture of the finished lens. Because of this fact, the court felt required to ignore the initial sale of the blanks by the Lens Company to the finishing licensees, even though the blanks embody the single idea covered by appellees' patent. Accordingly, it treated the finishing licensees as though they were in the position of ordinary manufacturing licensees licensed to make and vend a patented article. On this premise, it held the price-fixing and customer-designation provisions of the finishing licenses valid upon the authority of *United States* v. *General Electric Co.*, 272 U. S. 476.

For the reasons discussed in the preceding section of the brief, we believe that the court's premise is plainly wrong and that this case is governed by the *Ethyl* rather than the *General Electric* decision. But even if this Court should think otherwise and hold that the situation portrayed by this record is comparable to the situation in the *General Electric* case, we believe that the finishing licenses should still be held invalid. For we believe that the *General Electric* case expresses an erroneous view of the scope of the patent privilege and that, if necessary for the decision of this case, it should be reexamined and overruled.

1. In the *General Electric* case, this Court upheld provisions fixing prices for the sale of a patented

article which were contained in a manufacturing license granted by a patentee, engaged in the manufacture of the patented product, to a competitor desiring to make the same product. In passing upon that phase of the case the Court said (p. 490):

> If the patentee [having granted a license to make and use] goes further, and licenses the selling of the articles, may he limit the selling by limiting the method of sale and the price? We think he may do so, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. One of the valuable elements of the exclusive right of a patentee is to acquire profit by the price at which the article is sold. The higher the price, the greater the profit, unless it is prohibitory. When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, "Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself."

There is an obvious distinction between the facts in the *General Electric* case and both the actual facts in this case and the assumed state of facts upon which the District Court premised its decision. If it were sufficient merely to distinguish the

General Electric decision, it would only be necessary to point out that the patentee in that case was protecting his profits from manufacturing the products by forbidding price competition from a competitor licensed to manufacture and sell the same product. In the case at bar, appellees are not engaged in manufacturing and selling the same product as the licensees. Consequently the price-fixing provisions in the licenses cannot be said to protect against destructive competition the reward which appellees seek from their patent monopoly.

The difficulty with this distinction, however, is that it ignores the one prior decision of this Court upon which the *General Electric* rule appears to have been based. In *Bement* v. *National Harrow Co.*, 186 U. S. 70, this Court held that a patent holding company, whose sole business was the licensing of manufacturers, could validly fix the price at which a licensed manufacturer was to sell the patented product. In holding that this price-fixing provision of the license did not violate the antitrust laws, the Court said (p. 93):

> The provision in regard to the price at which the licensee would sell the article manufactured under the license was also an appropriate and reasonable condition. It tended to keep up the price of the implements manufactured and sold, but that was only recognizing the nature of the property dealt in, and providing for its value so far as possible. This the parties were legally entitled to do. The owner of a patented article can,

> of course, charge such price as he may choose, and the owner of a patent may assign it or sell the right to manufacture and sell the article patented upon the condition that the assignee shall charge a certain amount for such article.

2. The rationale of the *General Electric* decision and its relationship to the *Bement* decision can best be understood by tracing the development by this Court of the principles which determine the scope of the patent privilege. The argument had early been advanced that, since a patentee could withhold his patented invention from anyone or everyone, he could license anyone or everyone to use his invention on any condition he pleased. This argument was based upon the premise that a patent right is a property right and that a patentee, as a property owner, can do whatever he chooses with it. This Court, however, flatly rejected the contention. It pointed out that, although a patentee's interest in his patent has many of the attributes of property ownership (cf. *United Shoe Machinery Co.* v. *United States*, 258 U. S. 451, 463, *Ethyl Gasoline Co.* v. *United States*, 309 U. S. 436, 456), it does not follow that he may use his patent right in order to reap a reward unrelated to the purpose for which it was given to him or in a manner otherwise inconsistent with the public interest. See *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20; *Motion Picture Patents Co.* v. *Universal Film*

Co., 243 U. S. 502; *United States* v. *Schrader's Son, Inc.*, 252 U. S. 85; *United Shoe Machinery Co.* v. *United States*, 258 U. S. 451; *Carbice Corp.* v. *American Patents Corp.*, 283 U. S. 27; *International Business Machines Corp.* v. *United States*, 298 U. S. 131; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458; *Morton Salt Co.* v. *Suppiger Co.*, No. 49, this Term, decided January 5, 1942; *B. B. Chemical Co.* v. *Ellis*, No. 75, this Term, decided January 5, 1942. For example, a patentee who himself manufactures the patented article has absolute ownership of it and may sell it to anyone he pleases, or, if he wishes, may withhold it from sale, but it has consistently been held that the patent right does not entitle him to sell the article on conditions which are opposed to the public interest. See, e. g., *Adams* v. *Burke*, 17 Wall. 453; *Hobbie* v. *Jennison*, 149 U. S. 355; *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659; *Bauer & Gie* v. *O'Donnell*, 229 U. S. 1; cf. *Motion Picture Patents Co.* v. *Universal Film Co.*, 243 U. S. 502; *Missouri* v. *Bell Telephone Co.*, 23 Fed. 539 (C. C. E. D. Mo.).[24]

[24] One of the earliest and most lucid statements of the principle that a patentee may not use his patent privilege to impose restrictions or limitations which are contrary to the public interest is found in *Missouri* v. *Bell Telephone Co.*, *supra*, in which Circuit Judge (later Justice) Brewer said (pp. 540-541): "There is no peculiar sanctity hovering over or attaching to the ownership of a patent. It is simply a property right, to be protected as such. Starting from that

It is clear, then, that the mere existence of a patent right does not justify the patentee in imposing any limitation or restriction which he pleases in a patent license. To the contrary, such a limitation or restriction is valid only if it is within the scope of the patent privilege. In determining the scope of the patent privilege, little aid can be gained from the specific provisions of the patent law. For the statute which creates the patent privilege does not purport to define in precise terms the manner in which the privilege may be enjoyed. It specifically authorizes the assignment of the privilege (35 U. S. C. § 45), but it contains no provision authorizing the patentee to license others. The right to license arises simply because the patentee's interest is in the nature of a property interest and the rules of general law permit waiver of the right to protect that interest in an infringement action. Accordingly, we must look to the general purpose of the patent statute, rather than to any of its specific provisions, to determine

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as a basis, while every property owner may determine for himself to what he will devote his property, yet the moment he puts that property into what I perhaps may, for lack of a better expression, define as the channels of commerce, that moment he subjects that property to the laws which control commercial transactions. * * * Whenever the property is put into those channels, it is put within the power of the public, speaking through its legislature, or the power of the court enunciating general rules operative upon such transactions, to modify leases, modify licenses, control duties."

whether a restriction in a patent license, which would normally be invalid because contrary to the public interest in free competition, may nonetheless be justified as a proper exercise of the patent monopoly.

The patent law was enacted pursuant to the constitutional authority of Congress to make laws which "promote the progress of science and useful arts," and it has consistently been interpreted, consonant with that constitutional provision, as intended primarily to benefit the public at large by encouraging the development of new inventions: *Pennock* v. *Dialogue,* 2 Pet. 1; *Kendall* v. *Winsor,* 21 How. 322, 327-328; *Motion Picture Patents Co.* v. *Universal Film Co.,* 243 U. S. 502. There would be little incentive to develop new inventions if the ideas of the inventors could immediately be exploited by others; for that reason, the inventors are given an exclusive right to make, vend, and use the patented product or process. But, as we have stated, the scope of the right to make, vend, and use is limited by the public interest in the development of new inventions which is the reason for the creation of the right. Consequently, a requirement or restriction in a patent license which cannot be justified as furnishing an incentive to the development of new inventions or which, even though furnishing such an incentive, runs

afoul of some other and paramount public policy,[25] cannot be sustained. See cases cited pp. 48–49, *supra.*

The decision which most clearly enunciates this principle is *Motion Picture Patents Co.* v. *Universal Film Co.,* 243 U. S. 502. In that case the plaintiff owned patents covering a mechanism used in motion-picture projecting machines. The plaintiff granted a license which permitted the licensee to manufacture and sell machines embodying the invention but which provided that the licensee should require each purchaser (1) to pay the plaintiff an additional charge graduated by the size of the theatre in which the machine was to be used, and (2) to use the machine only in the exhibition of films designated by the patentee. The defendant, a purchaser, violated both requirements and was sued for infringement of the patent. In holding the graduated royalty provision invalid, this Court said (p. 519):

> A restriction which would give to the plaintiff such a potential power for evil over an industry which must be recognized as an important element in the amusement life of

[25] For example, the Court has consistently limited use of the patent monopoly by reference to such broad considerations of policy as the reluctance of the law to allow restraints on the alienation of chattels and the public interest in the preservation and enforcement of unfettered competition and a free market. *Straus* v. *Victor Talking Mach. Co.*, 243 U. S. 490, 500–501; *Motion Picture Patents Co.* v. *Universal Film Co.*, 243 U. S. 502.

> the nation, under the conclusions we have stated in this opinion, is plainly void, because wholly without the scope and purpose of our patent laws and because, if sustained, it would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes.

And in holding invalid the tying clause restricting the films that might be used in the machines, the Court said (p. 516):

> * * * we are convinced that the exclusive right granted in every patent must be limited to the invention described in the claims of the patent and that it is not competent for the owner of a patent by notice attached to its machine to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation but which are no part of the patented invention, or to send its machines forth into the channels of trade of the country subject to conditions as to use or royalty to be paid to be imposed thereafter at the discretion of such patent owner. The patent law furnishes no warrant for such a practice and the cost, inconvenience and annoyance to the public which the opposite conclusion would occasion forbid it.

Two decisions of this Court prior to the decision in the *General Electric* case expressed a view considerably at variance with all of the other cases we have cited. We have already mentioned *Bement* v.

National Harrow Co., 186 U. S. 70, 91, where in upholding a price-fixing provision in a manufacturing license, the Court stated, "the general rule is absolute freedom in the use or sale of rights under the patent laws of the United States." And in *Henry* v. *Dick Co.*, 224 U. S. 1, the Court, relying upon the *Bement* decision, held that a patentee was legally entitled to sell a patented machine on condition that it be used only in connection with unpatented articles manufactured by the patentee. In the *Motion Picture Patents* case, however, the Court expressly overruled the *Dick* case and enunciated principles with respect to the proper scope of the patent monopoly totally inconsistent with the statement which we have quoted from the *Bement* case.

Accordingly, when the *General Electric* case came before this Court, the Government contended that the rule of the *Bement* case was no longer law. Although the Court rejected the contention and followed the *Bement* decision, it did so, not upon the theory, expressed in the *Bement* case, that a patentee has "absolute freedom in the use" of his patent right, but on the narrower ground that a price-fixing provision in a manufacturing license is "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly" (272 U. S., at 490). In so ruling, the Court was careful not to cast doubt upon the principles which it had previously enunciated in the *Motion Picture Patents* case.

In the light of this historical survey, it seems clear that the decision in the *General Electric* case must be taken to stand for the proposition that the insertion of a price-fixing provision in a patent license agreement is related to the purpose for which the patent monopoly is given and is not inconsistent with the public interest. Indeed, the decisions in the *Motion Picture Patents* case and the *General Electric* case can be reconciled only on the ground either (a) that the Court believed that the public interest in preventing price-fixing is of less significance than the public interest in preventing patentees from using their patents to control the purchase of unpatented articles by their licensees, or (b) that it believed that a price-fixing provision is more directly related than a tying clause to the purpose for which the patent monopoly was created.

In urging reexamination of the *General Electric* case, therefore, we are not contending that this Court should adopt any new principle of law. Our contention is rather that the settled rules controlling the scope of the patent monopoly were misapplied by the Court to the particular restriction involved in the *General Electric* case. For we believe it entirely plain, at least in the light of present conditions, that a price-fixing provision in a patent license has no reasonable relation to the purpose for which the patent monopoly was created and seriously contravenes the paramount public interest in free competition.

3. As we have stated, the purpose of conferring upon inventors the exclusive right to make, vend and use their patented product or process is to benefit the public at large by giving an incentive for the development of new inventions. But surely incentive to inventors cannot be urged as a reason for reading into the exclusive right to make, vend and use a right to fix prices at which others, licensed to practice the invention, may sell the patented article. Corporate enterprises may, to be sure, enhance the reward from their patents if they can sell a price-fixing system together with their patented inventions, but the relation between such a reward and the encouragement of new inventions is obviously too remote and indirect to bring the sale of such a price-fixing system within the scope of the patent privilege.

Appellees may argue, however, that since a patentee can retain the exclusive right to manufacture and vend and thus exercise absolute control over the price which purchasers must pay for the patented article, there is no reason for refusing him the right to license another to manufacture and fix the price at which the licensee may sell. This is merely a variation of the argument that is made for allowing the manufacturer of an article, patented or unpatented, to fix resale prices. In such a case the manufacturer can sell directly to the ultimate consumer at any price he chooses. Consequently, it may be said that the public is no worse off if

the manufacturer elects to distribute through middlemen and fixes the prices at which they shall resell. However, it has always been the rule that when the owner of any article of commerce parts with his ownership of the article, he has no right to restrict subsequent dealing in that article. *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373; *Bauer* v. *O'Donnell*, 229 U. S. 1; *Straus* v. *Victor Talking Mach. Co.*, 243 U. S. 490; *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8.

The fundamental fallacy in the contrary argument is the assumption that the economic effect of permitting a patentee to fix prices for his licensees is precisely the same as the economic effect of permitting him to make the article himself and to sell it at any price he chooses. In other words, the argument assumes that the patentee is merely creating a quasi-agency by which he employs another to do exactly what he himself could do. In fact, this is almost never true. If the patentee is not interested in producing the article himself, the obvious purpose of the price-fixing provisions is to eliminate competition among licensees who are able collectively to produce on a scale which a single manufacturer could never attain. On the other hand, if the patentee licenses others to compete with him in the manufacture of the patented article, the purpose and effect is generally to establish a price-fixing scheme for an entire industry and thus to ward off potential competition. In

either event, the incentive which licensees would otherwise have to develop competing inventions that would be equally or more successful, or to attack doubtful patent claims in the courts, is destroyed. The result, far from benefiitting the public by encouraging the development of new ideas, is to deprive the public of the benefits of competition.

When a patentee chooses to exploit his patented invention himself, any controls which he may derive by virtue of the patent over the industry to which the patent relates must necessarily flow from the merits of the invention itself. This is not true, however, where, instead of making the article himself, the patentee seeks his reward by licensing others to exploit his invention. For, as the records in this case and in the *Ethyl* case demonstrate, a patentee who licenses others to make the patented article and who is enabled to sell a price-fixing scheme together with his patented invention, may secure domination over the trade in the article entirely irrespective of the merits of his particular invention.[26] In this case, for example, by virtue of

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[26] Other examples of the use of patents to control methods of distribution and prices for all, or a substantial portion of an industry, are found in numerous antitrust cases pending or in the course of trial in the courts. *United States* v. *General Electric Co.*, Civil Action No. 1364, D. C. D. N. J.; *United States* v. *American Optical Co.*, Civil Action No. 10-391, D. C. S. D. N. Y.; *United States* v. *Bausch & Lomb Optical Co.*, Civil Action No. 10-393, D. C. S. D. N. Y.; *United States* v. *Hartford Empire Co.*, Civil Action No. 4426, D. C. N. D. Ohio; *United States* v. *United States*

patenting a single discovery relating to the shape and position of the inserted section of a bifocal lens, appellees have succeeded in putting into effect a nation-wide price-fixing scheme which eliminates all price competition between persons engaged in the manufacture, distribution, and sale of finished Univis lenses. An even more striking example was presented to this Court in the *Ethyl Gasoline* case. There the Ethyl Corporation, relying on the *General Electric* rule, urged that it was legally entitled to set up a licensing system which dominated and controlled the marketing of 70 percent of all the gasoline sold in the United States. Such examples become more significant when it is noted that the ownership of patents is becoming increasingly concentrated in corporate interests.[27]

Gypsum Co., Civil Action No. 8017, D. C. Dist. Col.; *United States* v. *The Wayne Pump Co.*, Criminal Nos. 32597–32598, D. C. N. D. Ill.

[27] The testimony of Conway P. Coe, Commissioner of Patents, before the Temporary National Economic Committee shows that during the period from 1921 to 1938 the number of patents issued to large corporations (corporations with assets over $50,000,000) rose from 5 percent of the total number of patents issued in 1921 to 17.2 percent of the total number of patents issued in 1938 (*Hearings before the Temporary National Economic Committee:* Part 3, *Patents, Proposal for Changes in Law and Procedure*, p. 1129, Ex. 187). During the same period the number of patents issued to small corporations (corporations with assets of less than $50,000,000) increased from approximately 20 percent of the total number of patents issued in 1921 to 34.5 percent of the patents issued in 1938 (*ibid.*). During the year 1938 the total number of patents issued to all cor-

In the light of the foregoing instances of the use of patents to control prices and methods of distribution in entire industries,[28] we believe the assertion is justified that the rule in the *General Electric* case that a patentee has power to fix prices for his licensees not only finds no justification in the purpose for which the patent monopoly is granted, but also has in fact operated in a manner inconsistent with the public interest in free competition. Since the *General Electric* case was decided, this Court has given increasing vitality to the prohibitions against tampering with the price structure of articles in commerce by holding that all attempts to fix prices are illegal *per se*, regardless of the so-called "rule of reason." Although the first statement of the principle is found in *United States* v. *Trenton Potteries*, 273 U. S. 392, it was not until the recent

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porations, including foreign corporations, was 57.1 percent of the total number of patents issued (ibid.).

Even these figures, however, do not reveal the full extent of concentration of patents in the hands of corporations. Commissioner Coe stated that many of the industrial patents are owned by persons who are either officers of various corporations and permit those corporations to exploit the patents, or the patents are under the control and exploitation of corporations under various license agreements (*Hearings before the Temporary National Economic Committee:* Part 3, *Patents, Proposal for Changes in Law and Procedure*, p. 847). In 1936 Commissioner Coe, testifying before the House Committee on Patents, stated, "I do not say the day of the individual inventor is gone, Mr. Chairman, but I think it is rapidly fading" (Hearings before Committee on Patents on H. R. 4523, 74th Cong., 1st Sess. (1936) 1068).

[28] See also the instances cited in note 26, pp. 58–59, *supra*.

decisions of this Court in *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, and *United States* v. *Socony-Vacuum Oil Corp.*, 310 U. S. 150, that the sweeping scope of the doctrine became clear. A public policy so strong that it taints with illegality every other kind of price-fixing arrangement should not be required to give way in this one situation, particularly in the absence of countervailing considerations of public interest derived from the patent law. We submit, therefore, that the result reached in the *General Electric* case is wrong and that, if necessary for the decision of this case, it should now be overruled.

C. APPELLEES' USE OF THEIR LICENSING SYSTEM TO ENHANCE THEIR PROFITS BY OFFERING PRICE PROTECTION TO CUSTOMERS IS NOT A PROPER EXERCISE OF THE PATENT PRIVILEGE

The argument thus far has been directed to establishing the invalidity of the license agreements, considered individually. But even if, so considered, they should be deemed valid, the licensing scheme when viewed in its entirety is plainly illegal. Nothing in the patent law or the decisions of this Court indicates that a patentee may restrict trade in articles upon which he holds a patent to an extent greater than is necessary to enable him to secure his legitimate reward for his invention. The statute defines that reward as the monopoly of making, using, and vending the patented article. While a patentee may secure the pecuniary return from his monopoly either by exploiting it himself or by sell-

ing to others the right to do so, he is not entitled to enhance his profits from the patent monopoly by using the patent to protect others from competition. *Interstate Circuit* v. *United States*, 306 U. S. 208; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436.

In this case it is apparent that appellees did not grant licenses for the purpose of securing a pecuniary reward from the exploitation of the idea which they had patented, because the licenses are royalty free. Appellees' sole monetary return incident to the licenses results from the provision which requires the finishing licensees to purchase blanks for making Univis lenses from the only company licensed to manufacture such blanks, the Univis Lens Company. In other words, appellees' compensation is derived entirely from sale of the blanks embodying the patented idea and in no way from the permission granted to the licensees to manufacture finished lenses from the blanks.

Assuming that their patents give appellees the monopoly of manufacturing the blanks and that they have absolute freedom in selecting their customers, it does not follow that they may induce customers to purchase blanks by offering to protect them against competition in the sale of finished lenses. Nevertheless, the record plainly shows that the licensing scheme was used solely for that purpose. The Lens Company advertised in the trade journals that its distribution was re-

stricted to those adhering to approved standards of practice and competitive methods, thus eliminating about 80 percent of any licensee's competition (Ex. 44, R. 324–d). In corresponding with applicants, the Lens Company stated that it had "a very strong protective policy, by which distribution is confined to ethical channels" (Ex. 44, R. 357). Another applicant was advised that "Our policy, in the interest of protection of the ethical element, eliminates price-cutting or otherwise undesirable optical outlets" (Ex. 44, R. 349). Likewise, appellees stated that they would deal only with "ethical" optometrists who maintained prices and that they would police the licensee's territory to make certain that all licensees did so (Ex. 45, R. 405).

This price-fixing scheme has obvious attractions to the trade. Although a wholesaler pays an average price of $3.25 a pair for blanks, he is guaranteed that none of his competitors will sell finished lenses to prescription retailers at less than the minimum price of $7 a pair (R. 8–9, 51–52, 63). In turn, the prescription retailer, as well as the finishing retailer who pays $4 a pair for blanks, is assured that the minimum price to consumers will be $16 for white lenses and $20 for tinted lenses (Ex. 6, R. 212). Since the licensees' profits are made dependent upon their guaranteed spread, appellees may be able to charge a higher price for blanks than otherwise and thus enhance their own profits. But their ability to do so results from

affording to the licensees protection against competition rather than from granting to them a right to exploit the patented invention.

The record leaves no doubt that both appellees and their licensees understood that the licensing system was to be used to maintain a noncompetitive distribution system. Appellees have generally refused to grant licenses without the approval of their licensees (Ex. 45, R. 417, 422). In 1939 appellees informed an applicant that, "We have turned down during the last three months at least six licenses from Oregon because each one came from a town in which we have an active licensee" (Ex. 45, R. 422). Likewise, the licenses provide that the licensees shall assist appellees in securing evidence and enforcing the agreements (Exs. 4, 9, R. 210, 216).

It is also significant that the licensees were quick to come to the aid of appellees when there was danger of another company placing on the market a similar type of lens. In the fall of 1939 Titmus Optical Company announced its intention to market a bifocal lens blank similar in appearance to the Univis bifocal lens blank (R. 115, Ex. 20, R. 239). The Univis Corporation first notified the company that it would be sued for patent infringement (R. 115, Ex. 20, R. 240). Later, appellees requested the wholesaler licensees to write letters to the Titmus Company canceling and threatening to cancel orders if that company marketed the competitive bifocal lens (R. 115–116, 676–677). The wholesaler licensees did as suggested and as a result

the Titmus Company abandoned its plans (R. 116, 677).[29]

It is apparent from appellees' assertions as to the benefits of the licensing system and from the manner in which the system actually operated, that appellees were attempting to sell lens blanks by offering their customers the opportunity to accomplish a result which would have been illegal if done by concerted action of the customers alone. In other cases the Court has not hesitated to strike down similar schemes for evading the law. *Interstate Circuit* v. *United States*, 306 U. S. 208; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436.[30]

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[29] The court below properly found that such practices are not countenanced by the patent monopoly of The Univis Corporation and granted an injunction restraining the appellees from such activities. Unquestionably the suppression of potential competition is illegal. *Eastern States Lumber Ass'n* v. *United States*, 234 U. S. 600; *Paramount Famous Corp.* v. *United States*, 282 U. S. 30. However, the court failed to observe that this was but an incident which is indicative of the illegality of appellees' entire licensing system.

[30] In the *Ethyl* case the District Court, in referring to the illegal restraint accomplished by means of the licensing system, said (27 F. Supp. 959 at 965):

"* * * Defendants, through these separate agreements, have accomplished what the refiners, without the defendants' aid, could achieve only by a concerted refusal to deal with the jobbers who did not maintain 'business ethics.' The defendants can fare no better with their system of separate agreements than could the refiners if they formed such a combination. See *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U. S. 373, 408, 31 S. Ct. 376, 55 L. Ed.

In the *Interstate Circuit* case the contention was made that restrictions contained in agreements between a copyright owner and his licensees were legal because they constituted a legitimate exercise of the copyright monopoly. This Court, however, rejected the contention on the ground that the evidence showed that the purpose of the restrictions was to suppress competition among the licensees rather than to protect the monopoly of the copyright owners. The Court stated (p. 230):

> Even if it be assumed that the benefit to the distributor from the restrictions is one which it might have secured through its monopoly control of the copyright alone, that would not extend the protection of the copyright to the contract with Interstate and to the resulting restraint upon the competition of its business rivals.
>
> A contract between a copyright owner and one who has no copyright, restraining the competitive distribution of the copyrighted articles in the open market in order to protect the latter from the competition, can no more be valid than a like agreement between two copyright owners or patentees. * * *

If effect is to be given to the principles enunciated in the *Interstate Circuit* case, we submit that appellees should be enjoined from continuing to use any part of their licensing system. Each agreement, standing alone, is illegal; the licensing

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502. The agreements between the defendants and their refiner licensees accordingly constitute a forbidden restraint of trade. * * *"

system in its entirety is a scheme to evade the prohibitions of the law against restraints on free and open competition. In such circumstances, "The patentee, like * * * other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy." *Morton Salt Co.* v. *Suppiger Co.*, No. 49, this Term, decided January 5, 1942.

III

APPELLEES' SCHEME FOR CONTROLLING THE DISTRIBUTION AND SALE OF UNIVIS LENSES IS NOT WITHIN THE PURVIEW OF THE MILLER-TYDINGS AMENDMENT

Appellees contend that even if their patent licensing system is invalid, they cannot be charged with violating the Sherman Act because the identical restraints of trade are contained in the resale price-maintenance contracts entered into between the Lens Company and the wholesalers and retailers. These contracts, appellees assert, are within the exemption created by the Miller-Tydings Amendment to Section 1 of the Sherman Act.[31]

The Miller-Tydings Amendment exempts from the prohibition against contracts in restraint of trade, "contracts or agreements prescribing

[31] This defense is, of course, not available to appellees with respect to restrictions imposed upon wholesalers or retailers in the District of Columbia or in those states which have no resale price-maintenance laws.

minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade-mark, brand, or name of the producer or distributor." The court below held that this statutory provision affords no justification for appellees' price-fixing system, because appellees were seeking to fix prices on a product which they neither manufactured nor sold. This conclusion we believe to be plainly correct, not only for the reasons stated by the court but for the additional reason that appellees devised the contracts as a subterfuge to further a plan which contravenes the spirit and purpose of the Miller-Tydings Amendment.

A. APPELLEES HAVE NO LEGAL STANDING UNDER THE MILLER-TYDINGS AMENDMENT TO PRESCRIBE PRICES FOR FINISHED LENSES

An examination of the contracts plainly demonstrates that the product to which they apply by their terms is not the commodity with which we are concerned. Typical contracts between the Lens Company and the wholesalers, the finishing retailers and the prescription retailers are in evidence (Exs. 10, 12, 13, R. 217, 224, 228). In each of the contracts the Lens Company is designated as the "Manufacturer". The "Manufacturer" is described as engaged in the production of eyeglass lenses which are distributed and sold under the trade-mark of the "Manufacturer", "who is the owner thereof", and particularly under the trade-

mark "Univis". The agreements further recite that the wholesaler and the finishing retailer are engaged in the sale of eyeglass lenses under the trade-mark "Univis", "as supplied to it by the Manufacturer". The wholesalers and both classes of retailers agree that they will not offer for sale such eyeglass ~~lenses at less~~ than the minimum resale prices fixed by the "Manufacturer".

The contracts by their express terms are applicable only to eyeglass lenses manufactured by the Lens Company and sold under the trade-mark "Univis," which is claimed to be the property of the Lens Company. But the Lens Company does not make eyeglass lenses;[32] it makes Univis lens blanks which it sells to finishing licensees who produce eyeglass lenses from the blanks. That has been the consistent position of appellees in attempting to defend their patent licensing system; indeed, they stress the fact that the blank sold by the Lens Company is not a lens which can be used as an eyeglass. It is true that the lens blank is only useful for making an eyeglass lens, but it does not become such until the purchaser has ground, polished, shaped and edged it.[33] When the pur-

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[32] The evidence shows that the Lens Company makes a few special lenses. These do not, however, amount to more than one-tenth of one percent of its business (R. 67).

[33] The contract between the Lens Company and the wholesaler licensees describes the wholesaler as a manufacturer in the following language (R. 218):

"*The Wholesaler is also a manufacturer* in that further manufacturing steps are taken by said Wholesaler under the

chaser of the lens blanks sells the finished lens, he does not resell the product which he bought but makes the initial sale of a finished eyeglass lens. Consequently, the contract by its terms is inapplicable because there is no resale of an eyeglass lens purchased from the Lens Company.

The same considerations require the conclusion that the Miller-Tydings Amendment does not protect appellees even apart from the particular terms of the contracts. Insofar as sales by finishing licensees are concerned, the agreement fixing the price of the eyeglass lenses relates to the first sale of such lenses by the producers thereof, and consequently is not an agreement "prescribing minimum prices for the resale of a commodity" within the meaning of the Amendment. A second objection which is applicable to all of the price-fixing agreements, including those relating to resales by prescription retailers of lenses purchased from finishing wholesalers, is that the lenses are not "a commodity which bears, or the label or container of which bears, the trade-mark, brand, or name of the producer of such commodity." As

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supervision of the Manufacturer in creating said lenses supplied by the Manufacturer as blanks * * * and it is essential that the quality of the lens blanks so manufactured by the Manufacturer be continued *by subsequent manufacturing operation of the Wholesaler* and that said trade-marks, brands and names of the Manufacturer, and particularly the trade-mark "Univis" and the straight top of insert be continued to identify the lenses ground from the lens blanks of the Manufacturer." [Italics added.]

stated in the contracts, the trade-mark which forms the alleged basis for the contracts is the trade-mark "Univis," owned by appellees. But appellees are neither producers nor distributors of eyeglass lenses bearing that trade-mark. The eyeglass lenses are produced by the finishing licensees and distributed by them and the prescription retailers, none of whom is claimed to be an owner of the "Univis" trade-mark. Consequently, sale of the lenses under the trade-mark "Univis" is not a sale under the trade-mark of the producer or distributor and the commodity is therefore not within the class of commodities with respect to which resale price-maintenance contracts are legal.

In striking down the agreements the court below said (R. 667):

> This case is not unlike *Mallinson Fabrics Corp. et al.* v. *R. H. Macy & Co.,* 14 N. Y. S. 2, 203. In that case the New York statute relating to the fair trade agreements was considered. The action was brought by the manufacturer of fabrics sold under the name "Mallinson's Pure Silk Pussy Willow" and by a coplaintiff, a dress manufacturer. The plaintiffs sought to restrain the defendant from advertising or offering for sale or selling dresses under the trade-mark at a price lower than that fixed by the plaintiffs. The defendant's "Pussy Willow" dresses were not made by Mallinson, nor indeed were they those of Siegel. They were made by an un-

named manufacturer. The court observed: "As I perceive it, this dress is not a 'commodity' produced or owned 'by either plaintiff.'" The attempt of the Lens Company, under the guise of the protection of the statute, to control the resale of that which it does not manufacture, is ineffectual. For the same reason its "fair trade" agreements with "Wholesaler" and "Finishing Retailer" are likewise unenforceable. The latter do not resell the product or commodity of the Lens Company.

Appellees' inability to bring the contracts within the terms of the statute is not due to a mere technicality.[34] The primary purpose of statutes legalizing fair trade agreements is to protect the reputation and good will of the producer of a product by permitting him to fix prices on articles which are shown by the trade-mark or brand name to have been produced by him. Cf. *Old Dearborn Distributing Co.* v. *Seagram-Distillers Corp.*, 299 U. S. 183. Here the label or trade-mark "Univis" does not represent that the finished lens has been produced by the Lens Company; rather, the product purchased by the

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[34] Even if the argument be regarded as technical, appellees must be held to strict compliance with the statute. Since the Miller-Tydings Amendment creates an exception to a general act, it must be narrowly construed, whether the statute is remedial (*United States* v. *Dickson*, 15 Pet. 141, 165) or penal (*Spokane & Inland R. R.* v. *United States*, 241 U. S. 344, 350; *United States* v. *McElvain*, 272 U. S. 633, 639; *United States* v. *Scharton*, 285 U. S. 518, 521).

public is produced by the various finishing licensees, each having his own standard of workmanship. If "Univis" merely purports to denote characteristics or qualities of the lenses, it is not even a valid trade-mark.[35] In any event, appellees are not entitled to affix their trade-mark to the product of the finishing licensees and thus secure the right to fix the price at which the licensees may sell.

B. THE AGREEMENTS ARE ILLEGAL BECAUSE THEY ARE DESIGNED TO ACCOMPLISH PURPOSES WHICH ARE NOT PERMISSIBLE UNDER THE MILLER-TYDINGS AMENDMENT

For the reasons we have advanced, the contracts here involved cannot be sustained even if consideration is restricted to the price-fixing feature alone. But the illegality of the contracts is even more apparent when they are viewed in their entirety. In the discussion of appellees' scheme (pp. 61–67, *supra*), we pointed out that the plan did not contemplate price fixing alone but was designed to give appellees complete dominion over all distribution and sale of Univis lenses with absolute power to determine who shall be allowed to engage in the business. It seems obvious that if the so-called "fair trade contracts" relied upon by appellees are

[35] A trade-mark to be valid must denote the origin of the product and is insufficient if merely descriptive of the product, its qualities, ingredients, or characteristics. *Manufacturing Co.* v. *Trainer*, 101 U. S. 51; *Lawrence Mfg. Co.* v. *Tennessee Mfg. Co.*, 138 U. S. 537; *Columbia Mill Co.* v. *Alcorn*, 150 U. S. 460.

merely another device to carry out this illegal scheme, as we believe it plain they are, they must be stricken down regardless of whether any one feature of the contracts might be valid.[36]

A casual reading of the agreements suffices to show that they are no ordinary resale price-maintenance contracts. In each instance the wholesaler or retailer agrees with the Lens Company that he will sell only to customers or classes of customers designated by the Lens Company. The invalidity of such a restriction on the freedom to deal with others has been discussed (pp. 29-30, *supra*), and nothing in the Miller-Tydings Amendment removes the taint of illegality. The contracts also contain a clause whereby the Lens Company in effect agrees not to fix lower resale prices for any other dealer in the same class. This provision strongly indicates horizontal price fixing between competitors through the medium of the Lens Company rather than an attempt to protect the name and good will of the Lens Company. See *Interstate Circuit* v. *United States*, 306 U. S. 208. If there is any element of horizontal price fixing involved, the contracts contravene the express provision in the Miller-Tydings Amendment to the effect that the Amendment "shall not make lawful any contract or agreement, providing for the establishment or

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[36] Compare *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, in which this Court affirmed a decree enjoining the use of jobber licenses without deciding whether such licenses might be valid for some purposes.

maintenance of minimum resale prices * * *, between manufacturers, or between producers, * * * or between persons * * * in competition with each other."

But even more revealing than the language of the contracts are the facts surrounding their execution. The agreements were made in 1940, but they added nothing to the existing patent licensing agreements which date back to 1931. The Lens Company mailed out with the contracts a letter which stated in part (Ex. 14, R. 233):

> Without changing the basic Univis licensing structure, we propose to supplement the present license with a Fair Trade Agreement based on the Tydings-Miller Act ~~or~~ AND the Fair Trade Acts of the various States.

It is difficult to imagine circumstances which would indicate more clearly an intent to pervert the Miller-Tydings Amendment by sham contracts designed to cloak an illegal scheme. One of the requirements of the Amendment is that the commodity with respect to which resale prices are fixed must be one "which is in free and open competition with commodities of the same general class produced or distributed by others." This provision plainly evidences the intent of Congress that resale price maintenance contracts shall not be used to perpetuate monopolistic schemes. Since the contracts here involved were put into effect to cover up an illegal scheme and by their express terms endeavor to perpetuate that scheme, they should be held illegal as a manifest subterfuge which vio-

lates the spirit and purpose as well as the letter of the law.

IV

THE PRESCRIPTION RETAILER LICENSES ARE ILLEGAL

Appellees have taken a cross-appeal from that part of the decision below which strikes down the agreements by which appellees fix the prices at which prescription retailers, who purchase finished lenses from licensed wholesalers, shall resell lenses to the public. For the reasons stated in the preceding section of this brief, these agreements cannot be sustained as resale price-maintenance contracts within the terms of the Miller-Tydings Act. Likewise, if this Court accepts the contention made in Point II (pp. 31-67, *supra*) that appellees may not validly restrict the manner in which finishing licensees shall deal in finished lenses, it would follow as a matter of course that they may not impose restrictions of the same character on prescription retailers who are engaged only in reselling the finished lenses purchased from the wholesaler licensees. But even if it should be held that the finishing licenses are valid, the prescription retailer licenses must still be held illegal.

It is not disputed that if the prescription retailers are engaged in reselling a patented article which they purchase from the finishing wholesalers, any agreement fixing the resale price of that patented article is illegal. *Bauer* v. *O'Donnell*, 229 U. S. 1; *Straus* v. *Victor Talking Mach.*

Co., 243 U. S. 490; *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8; *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436. The only defense advanced by appellees is the contention that the prescription retailers perform some function in connection with the manufacture of an article covered by appellees' patents. The uncontradicted evidence shows that the contention is frivolous.

All that a prescription retailer does is to examine the customer and then send to a finishing wholesaler a prescription for glasses, which he either writes out himself or which the customer has previously obtained from an oculist (R. 90, 190–192). In most cases the retailer receives from the wholesaler a pair of spectacles containing lenses finished in accordance with the prescription (R. 88, 90).[38] It is then only necessary to adjust the spectacles by bending the nose and ear pieces of the frame (R. 190–191, 193–194). This operation is in no way related to the practice of the invention claimed by appellees' patents and cannot be magnified into a manufacturing process. It follows, as the court below held, that the prescription retailer is engaged solely in the resale of articles purchased from wholesalers and that, therefore, under settled principles, the agreements fixing his resale prices cannot be justified as a valid exercise of the patent privilege.

[38] Occasionally a prescription retailer chooses to order just the finished lenses and fits them into the spectacle frames himself. At most, this only requires edging the lenses to fit the frame. (R. 88.)

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V

APPELLEES WERE SUBJECT TO THE JURISDICTION OF THE DISTRICT COURT

After the filing of the complaint in this case, appellees moved to quash service and dismiss the complaint for lack of jurisdiction (R. 11). This motion raised only the question of venue in the Southern District of New York.[39] The motion, which was heard on affidavits, was denied (R. 45).

Section 12 of the Clayton Act provides that any action under the antitrust laws against a corporation may be brought "not only in the judicial district whereof it is an inhabitant, but also in any district wherein it may be found or transacts business" (15 U. S. C. § 22).[40] The only issue on this aspect of the case is whether the facts disclosed by the affidavits show transaction of business in the Southern District of New York within the meaning of Section 12.

The facts are these: Representatives of Univis Corporation, including its vice president, appellee Silverman, solicit licenses and negotiate with prospective licensees in the Southern District of New

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[39] No contention was made that personal jurisdiction over all defendants had not been acquired by service of summonses in accordance with provisions contained in Section 12 of the Clayton Act (15 U. S. C. § 22) and Section 5 of the Sherman Act (15 U. S. C. § 5).

[40] The new Rules of Civil Procedure have not affected this provision. See Rule 82.

York. Representatives of the Lens Company make periodic calls upon licensees in the Southern District of New York, the purpose of these calls, so appellees contend, being to instruct licensees in the finishing of Univis lens blanks and to determine whether lenses finished by the licensees conform to the standards of quality prescribed by appellees. Representatives of appellees also visit optical retailers and dispensers located in the district in an effort to persuade them to purchase Univis lenses from licensees of the Univis Corporation. The Lens Company regularly mails price lists into the district, solicits orders by mail, and ships Univis lenses into the district in response to orders received from licensees located there. The market within the Southern District of New York is one of the largest available to the two corporations. Univis Corporation has approximately 150 licensees in that district, and the Lens Company does a substantial part of its business with such licensees. (R. 13–15, 18, 22–44.)

Under the foregoing facts, the appellee corporations clearly transact business within the Southern District of New York.[4] The situation here is es-

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[4] Indeed, appellees would seem not only to be transacting business in the Southern District but also to have a corporate presence there. See *Connecticut Mutual Life Ins. Co.* v. *Spratley*, 172 U. S. 602; *Pennsylvania Lumbermen's Mutual Fire Ins. Co.* v. *Meyer*, 197 U. S. 407; *Commercial Mutual Accident Co.* v. *Davis*, 213 U. S. 245; *International Harvester Co.* v. *Kentucky*, 234 U. S. 579; *Empire Fuel Co.* v. *Lyons*, 257 Fed. 890 (C. C. A. 6); *Farmers' & Merchants' Bank*

sentially indistinguishable from that involved in *Eastman Kodak Co.* v. *Southern Photo Co.*, 273 U. S. 359. The ruling in that case requires affirmance of the order denying appellees' motion to dismiss.[42]

CONCLUSION

The decree below, in so far as it dismisses that portion of the complaint which seeks to enjoin appellees from continuing their license agreements with wholesalers and finishing retailers, should be reversed; in all other respects, the decree should be affirmed.

Respectfully submitted.

CHARLES FAHY,
Solicitor General.

THURMAN ARNOLD,
Assistant Attorney General.

JAMES C. WILSON,
RICHARD H. DEMUTH,
SAMUEL S. ISSEKS,
STANLEY E. DISNEY,
Special Assistants to the Attorney General.

ROBERT DILLER,
Special Attorney.

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v. *Federal Reserve Bank*, 286 Fed. 566 (E. D. Ky.); *Hutchinson* v. *Chase & Gilbert*, 45 F. (2d) 139 (C. C. A. 2); *Tauza* v. *Susquehanna Coal Co.*, 220 N. Y. 259.

[42] See also *Sure-Fit Products Co.* v. *Fry Products*, 23 F. Supp. 610 (S. D. N. Y.); *Hansen Packing Co.* v. *Swift & Co.*, 27 F. Supp. 364 (S. D. N. Y.).

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